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[Countries](), [United States]()

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Question 3

“ Why was the economic depression of the 1930s so severe? Outline its causes and discuss its effects, both economic and political, with reference to two national economies. Consider also the question: would the ‘ Great Depression’ be possible today?”

A depression is an economic state that results from a lengthy period of adverse economic activity as measured by the GDP. Therefore, it is a prolonged and severe downturn in the economic activity. Increases in unemployment, diminishing output, reduced commerce and trade, a drop in the available credit, bankruptcies as well as sovereign debt defaults, and sustained volatility in the currency values are some of the economics factors, which characterize an economic depression. During the times of economic depression, the consumers’ investments as well as confidence decrease and this is what results to the economic shut down.

In other words, economic depression is a severe and sustained recession. A recession is essentially a normal part of the business cycle, which lasts for some months. Conversely, depression is a great fall in the economic activity, which lasts for some years (Rothbard, 2000). For this reason, this essay centers on the economic depression of the 1930s, outlining its causes and discusses its political and economic effects with reference to two national economies, German and United States. The paper ends with a discussion of whether the great depression would be possible today.

The economic depression of 1930s is termed as the Great Depression. This depression was the longest- lasting and deepest economic downturn in the Western industrialized world history as it began in 1929 and ended in 1939. It is termed severe because of its occurrence period and economic effects. The main causes of this economic depression are a matter of vigorous debate among the economists (Kindleberger, 1986). As such, there does not exist an agreed upon list of all the causes of this depression. Many believe that the crash of the stock market in 1929 caused this depression. However, one factor did not cause it, but instead a combination of both worldwide and domestic conditions led to this depression.

The crash of the Stock Market in 1929 is one of the major causes that many economists and historians have cited as the cause of the 1930’s Great Depression. In the U. S, this depression started soon after this crash took place. Economists argue that this crash made the Wall Street panic and wiped millions of investors. For the preceding years, the investment and spending by the consumers dropped, and this resulted to steep declines in the industrial output as well as the increasing levels of the unemployment, since the failing companies sent their workers home (Nardo, 2000). The Great Depression had reached its nadir by 1933. During this time, some 13-15 million Americans were jobless, and almost half of the banks in the country had failed.

Bank failures are the other causes of the economic depression of 1930. All over the 1930s, more than 9000 banks failed. There were uninsured bank deposits during this time, and, therefore, as the banks failed, individuals lost their savings. The surviving banks stopped creating new loans because they were unsure of their survival and the situation in the economy. The bank failures worsened the situation resulting to scarcer and scarcer expenditures.

The other cause of the economic recession of the 1930s is a reduction in the purchasing across the Board. People from all the classes stopped buying items because of the 1929 crash of the stock market, as well as the fears of additional economic woes. This led to a decrease in the items manufactured and, therefore, a decrease in the workers. As individuals lost their occupations, they were incapable to keep up with repaying for the items that they had bought by the installment plans, and this led to the repossession of their items. The inventory started to accumulate, and the rate of unemployment increased above 25 percent that meant even less expenditure to help improve the economic situation (Galbraith, 1955).

The American Economic Policy with the Europe is the other cause of the Great Depression. As the businesses started failing, the American government made the 1930 Smoot-Hawley Tariff to help in protecting the American companies. The Smoot-Hawley Tariff charged a high tax for the imports hence resulting to less trade between the foreign countries and America together with a number of economic retaliation.

Many countries in the world suffered both politically and economically due to the economic downturn. Inflation increased sharply due to low productivity of goods and services thus high prices. In the United States, various economic indicators were severely affected leading to negative economic growth of the country. Industrial production dropped by approximately 45% leading to increased rate of unemployment (McElvaine, 1984). Approximately 13million people were rendered jobless, and the number continued to increase every year to approximately 34 million people whose wage rate was inconsistent due to lack of permanency in job employment.

In Germany, things were not different with the economic downturn. One of the major effect was us cessation to fund the country in rebuilding its economy. As a result, employment rate, which had indicated signs of recovery plunged, again to nearly 30% (Bernanke, 2000). This reduced the average earning income of a German due to loss of formal and informal employment.

Germany had been the greatest beneficiary of the American fund. They could not sustain their economy on exports and production since they relied on American loans. The disbursement of loans by America marginally reduced and ceased late 1929. As a result, banks credit facility reduced and foreign investors started to withdraw their cash. This led to consumer loss of confidence with the banks leading to a reduction in money supply.

Another effect of the great depression on the German economy was a sharp decrease in export sales to the US. This was as a result of economic downturn in America that prompted the government to impose tariffs on imports to caution it from external foreign exchange shocks. Consequently, industries closed down leading to a plunge in the unemployment rate to approximately 6 million people by 1933.

In the US, people had shown little concern to political happenings that could affect severely on the economy. The United States citizens repatriated into the country following the depression and started reviewing their political allegiances. Most started investigating and joined members of the Communist party and social parties. This led to the election of Franklin Roosevelt who instituted measures to mitigate the impact of depression.

In Germany, the political environment changed with people favoring the extremist political movements. This led to the rise of the Adolf Hitler and the Nazi party. Hitler initiated measures to curb the effects of the depression. They adopted regressive foreign policies that led to the emergence of World War II. Adolf Hitler was the greatest beneficiary of the economic turmoil. President Hindenburg government had failed terribly to resuscitate the economy from the crisis. Through the Chancellor, Heinrich bruning, Hindenburg adopted tax increase policy to reduce budget deficit and implemented wage cuts and to control spending habits. Unfortunately, his policies did not function effectively and instead escalated the unemployment rate. This led to shift of allegiance by Germans and Nazi party membership increased significantly. As a result, Hitler was elevated to power through an election in 1932. The economy indicated positive growth. Therefore, the climax of greatest depression in Germany was a change of regime.

It would be naive to assume the impossibility of re-emergence of the great depression in the current century. This is because the world experienced the great recession period in 2008 similar to the great depression, whose effects adversely affected the key economic indicators. This led to the global rise in the unemployment rate in the US and other global countries with African continent being the worst victim. However, in case of the global depression recurred, it would not have so much severe effect due to the political stability of in the current century.

Conclusion

The greatest depression was the greatest economic threat in New York whose effects spilled to economies in the whole world. Macroeconomic indicators such as employment and price stability received the greatest impact. Therefore, to save the world from a recurrent of such recession, economies all over the world should engage in consultation before adopting macroeconomic policies that could adversely affect the whole world. In addition world economic organizations and the World Bank should conduct routine macroeconomic policy assessment to evaluate their performance in the economy.

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